

**Statement of
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**U.S. Senate
Committee on Small Business and Entrepreneurship
Hurricane Katrina Relief Efforts**

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Good morning, Chair Snowe, Ranking Member Kerry and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's (SBA) Office of Disaster Assistance (ODA) efforts to provide relief to the victims of Hurricane Katrina.

I am accompanied today by Herb Mitchell, the Associate Administrator for Disaster Assistance. Herb is long-time career employee of SBA with over a decade of experience in our Office of Disaster Assistance. I want to tell you how happy I am to have Herb as our head of the disaster office; he is a man of experience, dedication and skill.

Herb and I have just returned from Louisiana and Texas. We learned firsthand the destruction caused by this massive storm, but more important, I met with citizens - homeowners and small business owners who were affected. We also met with our SBA disaster assistance employees on the ground and, I can tell you, I have never been more proud of the work we do at SBA.

I visited our disaster recovery center staff and our displaced New Orleans District Office staff in Baton Rouge, as well as our Disaster Loan Processing and Disbursement Center staff in Fort Worth. They have done an excellent job and are carrying on in the best tradition of federal service. In response to that, I am committed to offer them all the support they need to carry out the SBA's disaster assistance mission.

Before detailing SBA's expanded recovery efforts in regards to Hurricane Katrina, I think it is important to give some background on SBA's disaster programs. The SBA Disaster Assistance Program is the primary federal disaster-assistance loan program for long-range recovery for private-sector, non-agricultural disaster victims. Disaster loans are direct loans from SBA and eligibility is based on financial criteria. Interest rates fluctuate according to statutory formulas. Currently, the interest rate for loans for people without credit available elsewhere is 8.75% and the rate for people with credit available elsewhere is 5.375% for homeowners. For businesses the rates are 4.0% and 6.557%, respectively. It is important that everyone understand that SBA disaster loans are not just for small businesses, in fact, the majority of SBA disaster assistance is directed to homeowners, to help rebuild their homes.

SBA has two kinds of business disaster loans. Physical disaster loans provide qualified businesses of any size that have sustained uninsured losses up to \$1.5 million with funds to

repair or replace business property to pre-disaster conditions. These loans may be used to replace or repair equipment, fixtures, and inventory, and to make leasehold improvements. Economic Injury Disaster Loans (EIDL) provide up to \$1.5 million in working-capital loans for small businesses that suffer economic injury as a direct result of a disaster, regardless of whether the property was damaged. These loans are made to help small businesses pay ordinary and necessary operating expenses that they would have been able to pay if the disaster had not occurred.

The bottom line is that SBA's disaster loans help rebuild communities. SBA doesn't just help the small businesses, but their friends, and neighbors – their customers. Disaster losses are unexpected and create financial hardships for most disaster victims. Our disaster loans make recovery affordable through three factors; low interest rates, longer terms (up to 30 years), and refinancing under certain circumstances. SBA disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help spur employment and stabilize tax bases by protecting jobs.

SBA responded immediately to the President's disaster declaration for Hurricane Katrina and continues to expand and increase assets to ensure that our delivery of disaster assistance goes smoothly. Yesterday, I visited our processing center in Fort Worth. We have expanded that facility by 40,000 square feet and added phone and computer connections to increase our capacity to process applications. To date, SBA has received a record number of referrals – over one million. We have been sending out applications and are preparing to receive them back.

I would also like to address “head on” the misguided press accounts of computer problems in the Office of Disaster Assistance (ODA). Nothing could be further from the truth. Our prior system, the Automated Loan Control System (ALCS), was cumbersome, unreliable, outdated and does not comply with current IT security requirements. The ALCS was not a loan processing system but a tracking system that interfaced with our mainframe to fund and disburse loans. A separate automated Loan Officer Report system was used for underwriting and operated on a different platform. Finally, we also used a legal document generation system which also operated on a different platform. The technologies for all of these systems are outdated and inefficient. Last year in one of our offices the ALCS broke down during the Florida hurricanes; and it took nearly a week to be repaired. The delay was due to the need for parts, parts for a system that is so old no one carried replacement parts. Faced with the possibility of future failures, SBA many years ago moved forward to build our new Disaster Credit Management System (DCMS) now being utilized for Katrina. The DCMS is a totally integrated web-enabled system that performs all of the necessary functions on one platform with the latest technology.

This system has been in use since December of 2004 and allows SBA to process loans electronically in a paperless environment. Processing and disbursement of disaster loans is now centralized in Fort Worth, Texas, with a back up processing location in Sacramento, California. Both locations have sufficient numbers of desktop computers to process and disburse loans. The DCMS is a "paperless," electronic loan application and loan process, which improves the processing of paper-based applications through imaging (scanning).

DCMS introduces "virtual" loan processing, making electronic loan files available for processing anywhere, by anyone, and at any time, regardless of where the disaster occurs. The system will ultimately provide for multiple interaction methods between the disaster loan applicant and ODA, such as internet loan application which is under development.

The DCMS improves SBA access to external data sources that provide credit reports, criminal background checks, status of Federal debt, tax information from the IRS, duplication of benefits data from FEMA, flood zone mapping with FEMA, verification of real property ownership with title companies and court house records, etc.

All of this is an improvement over our old system and we have used it successfully for over 15,000 applications.

ODA is staffing up to meet the demands of this disaster, as it does for all disasters, by hiring temporary employees to verify losses, provide customer service to the victims on the phone and in the field, and process and disburse loans. ODA is currently hiring over 200 employees a day. We have over 2,000 disaster employees on board right now and we expect to hire perhaps as many as another 2,000 to meet the needs of those affected. By design, ODA staffs up to meet the needs of disaster victims when disaster strikes. This staffing up is transparent to disaster victims and saves taxpayers hundreds of thousands of dollars by keeping the staff low in times where little disaster activity is occurring. By way of example, we had approximately 800 employees ODA wide at the time of the Hurricane.


Our SBA ODA employees are in over 30 disaster recovery centers and more are opening daily. At each of these DRCs, there are customer service representatives and loan officers providing Katrina victims with one-on-one assistance, issuing loan applications, helping to fill out applications, and answering program questions. They are also accepting completed applications, forwarding them to Fort Worth, and making follow up telephone calls to victims who have not returned their applications. We also plan to establish a Business Assistance Center in the New Orleans area. As soon as it is safe to for the residents of New Orleans to go home, SBA will be there to help them.

Bob and his staff have been doing a magnificent job. ODA has ordered equipment for and is training new field verification staff for Katrina as it would for any disaster but on a much larger scale. At the time Katrina struck, ODA had 300 computerized DCMS "tablets" on hand to meet the demands of regular and on-going disaster activity, including the immediate response to Katrina and has a contract with a vendor to provide more as needed. ODA immediately ordered more tablets and has received 560 of the 600 it has ordered, with 400 more tablets in the pipeline.

I would also like to discuss some of the other steps SBA is taking outside of our normal programmatic efforts. SBA is considering a number of efforts to assist small business outside of usual programs. Last weekend, I met with a number of business leaders. It is inspiring to see their willingness to pitch in and help. One business is already seeking ways to work with SBA to help us leverage our business matchmaking events to assist small business in the Gulf Region.

SBA has assigned four (4) Procurement Center Representatives (PCRs) to Katrina related contracting. Our Office of Government Contracting is meeting with Small and Disadvantaged Business Utilization (SDBU) officers from all major agencies to help focus on small business opportunities. SBA is also working with the General Services Administration (GSA) to establish up to date sourcing lists for small businesses and helping small businesses enter the Central Contractor Registration (CCR) database of small businesses available for contracting for reconstruction and clean up in Gulf region. While the Administration's priority is always working to provide needed emergency services as quickly as possible, SBA is committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort.

Our Small Business Development Center (SBDC) partners have also come forward in an exemplary fashion to assist with counseling and business development assistance for small businesses damaged by Katrina. We are working with them to enable them to provide services from neighboring states and across the country. To that end, I have approved a regulatory waiver for SBDCs to help in disaster areas.

 I want to take some time to discuss the proposals outlined in the President's speech last Thursday. SBA supports the President's goal of rebuilding not just New Orleans but the entire Gulf region devastated by Katrina. In the area that the President has designated Gulf Opportunity Zones (GOZ), SBA will have the following role:

Increase the maximum size of SBA business-related disaster loans from \$1.5M to \$10M.

SBA disaster loans to businesses for recovery activities are typically capped at \$1.5 million. The proposal would increase the limit to \$10 million for businesses that were adversely affected by Hurricane Katrina and are located in the declared disaster area. Raising this cap on loan size should help business activity recover more quickly by facilitating firms' access to low-interest loans to cover physical damage and economic injury.

Increase Disaster Mitigation Loans.

When providing a disaster loan for uninsured recovery costs, SBA can increase the loan amount by up to 20% so that the borrower can invest in disaster mitigation technologies such as sea walls and storm shutters. The Administration proposes to raise the amount that can be provided for disaster mitigation by basing the calculation on the total damage caused by the disaster loan. (For example, a business that receives \$100,000 of damage may have \$80,000 covered by insurance and \$20,000 covered by an SBA disaster loan. Typically, SBA's mitigation loans would be limited to 20% of the \$20,000. The Administration's proposal would raise eligibility to 20% of the \$100,000 damage -- in this case increasing by five-fold the amount of disaster loan lending eligible for mitigation.)

Increase the maximum size of Surety Bonds from \$2M to \$5M.

Small business often must secure bid and performance bonds in order to win contracts. These bonds assure the contractor's customers -- including those in the public and private sectors

-- that the contractor has the financial capacity to perform the requisite work. The larger bonding limit would assist small businesses in the disaster area secure contracts, especially those related to reconstruction.

Provide 7(a) and 504 loan borrowers with options for deferring their principal and interest payments for a 12-month period.

In order to allow affected small businesses located in the disaster area to rebuild their enterprises and cash flow, the Administration supports providing borrowers with options to defer principal and interest payments on existing 7(a) and 504 loans for up to 12 months during FY 2006. Under certain circumstances, participating lenders and Certified Development Companies can make such deferral available to the borrower. Where a deferral is not available, alternative means of providing temporary relief to the borrower may be needed, and could include the issuance of an Economic Injury Disaster Loan for the working capital needs of the small business. Through these measures, borrowers could better regain their financial foundations. SBA is also planning to defer payments on certain agency-serviced business loans in the disaster area and is sending a notice to our lending partners asking them, where possible, to do the same on SBA business loans that they service.

Higher GOZone-specific 7(a) and 504 loan levels in FY 2006.

The current program authorizations for FY 2006 limit SBA's nationwide 7(a) loan volume to \$17 billion and 504 loan volume to \$7.5 billion. The Administration proposes to provide higher loan levels specifically for the GOZone area during FY 2006, thereby ensuring that lenders will be able to make small business loans in the area. GO Zone area limits will be \$10 billion for 7(a) loans and \$5 billion for 504 loans in addition to the levels already authorized for the regular programs.

Once Hurricane Katrina hit the Gulf Coast, SBA's ODA immediately began its outreach, as we do in all disasters. Immediately, ODA was in contact with our Regional Offices, SBDCs, and local community-based organizations. Things are moving along quickly and efficiently. And I am pleased to report that we are serving those affected by this disaster well and have the manpower and technology to continue to do so.

Thank you, Chair Snowe and Ranking Member Kerry, for affording me the opportunity to speak to you today about this very important topic. I look forward to answering any questions that you might have.